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SUBJECT: NIGERIA: NEW BANS ON IMPORTS

REF: 03 ABUJA 600

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1. (U) Summary: GON officials recently announced a new series of import bans, this time on items ranging from toothpaste and wheelbarrows to plastics, textiles, detergents, and meat products. The bans' impact on overall U.S. exports to Nigeria will likely be minimal, but some U.S. firms, particularly Procter & Gamble, will suffer losses. Mission personnel will continue to support U.S. exporters and convey USG concerns about Nigeria's protectionist trade policies to GON officials, but given the bans' political nature, convincing the GON to remove them or replace them with tariffs will likely be difficult. End summary.

2. (U) Nigeria's use of import bans as a trade policy tool is nothing new: several of the twenty-odd items on the GON's September 2003 Import Prohibition List have been banned for years. The bans' cumulative impact on U.S. producers has been negligible, mostly because the specified items comprise (or would comprise) a very small percentage of overall U.S. exports to Nigeria (reftel). Although the GON's latest additions to the Import Prohibition List more than double its length, most of the newly banned items are not among the mix of products exported to Nigeria by U.S. firms. Certain producers, of course, do stand to lose, particularly those who export plastics, textiles, detergents, meat products, or men's footwear. U.S. trade data suggests potential losses to these producers could total \$30 million per year, but unless these exports account for a significant proportion of an individual firm's total exports, businesses will survive intact. The potential \$30 million loss represents no more than 3 percent of total U.S. exports to Nigeria. Thus far, U.S. firms seem relatively unconcerned at the prospect of losing access to Nigerian markets. Inquiries and protests have been few and far between.

3. (SBU) Only one firm, Procter & Gamble, has requested Mission advocacy. Company executives said February 6 that P&G would have to discontinue sales of its Ariel detergent (which it imports from Morocco) in October 2004 if the GON's ban on imported soaps and detergents remains in place. Having lost \$27 million in its first nine years of operation, P&G Nigeria has only recently begun to break even and begin expanding its operations. It opened a \$10 million diaper and feminine pads factory in 2002 and invested \$4 million in a second feminine pads facility set to open next month. These plants, together with a proposed detergent factory, may be at risk if P&G's profits from Ariel can no longer be realized and re-invested. The firm may be able to offset its losses by producing detergent locally, but regaining lost market share may be difficult. P&G executives have spoken to President Obasanjo and Ministry of Finance officials, but the GON shows no willingness to lift the ban.

4. (U) GON officials are not unfamiliar with arguments against import bans. Mission personnel have frequently pointed out that bans are inefficient, economically counter-intuitive, and difficult to enforce. Bans do little to stimulate domestic production, in part because they raise the costs of doing business and in part because corresponding increases in contraband goods deprive local manufacturers of any incentive to increase productivity. Banned items have long entered the country illegally - the Nigeria Customs Service lacks the personnel and technical capacity it needs to prevent this - and will likely continue to cross Nigeria's porous borders. Consumers also bear the costs of illegally imported goods or expensive locally manufactured goods, and society as a whole suffers. Moreover, local manufacturers are in many cases incapable of expanding production quickly enough to offset anticipated shortfalls. Nigerian meat and fruit producers, for example, would have to spend years building their industries before their farms and orchards would yield significant increases in output or

revenue.

15. (U) Under Nigeria's World Trade Organization commitments, GON officials should have replaced import bans with tariffs long ago. Mission personnel have frequently reminded GON officials that bans are illegal under WTO rules, but the GON insists "WTO protocol allows countries to impose bans of a maximum of five years to enable local industries to compete." Replacing the bans with tariffs would make sense: like bans, tariffs reduce imports, but they have the added benefit of generating tariff revenue, something that accounts for a significant proportion of the GON's total annual income. If the GON imposed 100 percent tariffs on each of the items it now bans, it could earn nearly \$30 million per year from the U.S. alone. The failure to levy tariffs deprives the GON of tariff revenue and leaves in place bans that violate WTO rules and contradict the GON's stated commitment to more liberal trade policies.

16. (SBU) Despite these arguments, GON officials are unlikely to change course. Some have hinted at future bans, arguing that benefits to local producers far outweigh lost tariff revenue. GON officials say repeatedly that by eliminating (or at least reducing) imports, bans stimulate domestic production and give local producers a chance to compete. This, in turn, supposedly creates jobs, raises incomes, and enhances economic growth. These arguments are largely inaccurate, but they appeal to a public desperately in need of jobs, and GON officials know this. With the 2007 elections three years away and politicians already trying to garner support, GON officials are unlikely to abandon populist policies. Import bans are highly political issues, and many provide lucrative means of rewarding politicians' largest campaign contributors. Bans on bagged cement and noodles, for example, benefit one particular firm, Dangote Industries, whose owner is thought to have contributed \$25-50 million to President Obasanjo's 2003 election campaign.

17. (SBU) Import bans rarely succeed in stimulating the local economy, but they do create opportunities for corruption. Those who import banned items provide kickbacks to Customs officials and transportation companies, and local manufacturers who benefit from the bans often express their appreciation in cash. In the end, everyone kicks up, a handful of people make a great deal of money, and Nigerian consumers bear the costs. Those who benefit from the system have little incentive to eliminate it, every incentive to maintain it, and even greater incentives to expand it.

18. (U) Comment: Mission personnel will continue to support U.S. exporters and convey USG concerns about Nigeria's protectionist trade policies to GON officials. Advocacy may be most effective if President Obasanjo is approached directly, particularly since the vast majority of import bans appear to originate in his office. The U.S. Trade Representative's Office and other Washington agencies could help by preparing a high-level demarche. In the meantime, Mission personnel will concentrate on expressing USG concerns in meetings, speeches, op-eds, and press briefings. Mission personnel will also promote new business opportunities to U.S. exporters. Paradoxically, the benefits to U.S. producers may actually outweigh losses related to the bans, particularly if U.S. exports of capital equipment and other inputs to Nigerian start-ups increase. We might express our opposition to the GON's import bans, but we should also do what we can to take advantage of new business opportunities. End comment.

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